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SUBJECT: HIGH BELGIAN UNEMPLOYMENT PERSISTS

¶1. (U) Summary. Belgian unemployment remains high on average by national standards, 8.6 percent, and rose in the past year despite good EU and global economic growth rates. The French-speaking regions of Wallonia and Brussels register over 19 and 21 percent unemployment respectively, reflecting a working age population lacking skills sought by employers. Improving educational standards and worker re-training programs, and possibly rethinking Belgium,s generous unemployment benefits, will be essential in addressing the country,s entrenched unemployment problem. End Summary.

¶2. (U) Despite stronger than expected GDP growth rates in 2005 (2.4 percent) and 2006 (2.7 percent forecast), Belgian unemployment moved slightly higher in October, registering 8.6 percent, up 0.6 percent from a year earlier. Although Belgium,s highly trade-dependent economy has been more resilient and performed better than its key markets of Germany and France in recent years, serious job growth never followed. This troubles Belgian analysts, and underscores persisting structural problems; forecasts for Belgium in 2007 foresee the economy slowing to 2.2 percent growth, implying further challenges to employment growth.

¶3. (U) Broken out regionally, the unemployment situation is even more striking. In Flanders and the dynamic Antwerp port region, unemployment is under the national average. Strong profits in the petroleum, chemicals and refining sector, as well as active foreign investment in bio-pharmaceuticals and other new technologies, coupled to high productivity levels, account for stronger demand for workers. In Wallonia, conversely, unemployment reached a record of almost 290,000 people, 19.4 percent of the working age population. In the past twenty years, Walloon unemployment has never dropped below 17 percent.

¶4. (U) The Walloon Enterprise Federation blames this weak performance ) despite a favorable national and global economic climate ) on weak skills. Nearly half of the Walloon unemployed have not completed secondary school education. Professional and vocational training programs have been weak, job losses in old industries such as steel have not been counterbalanced by new investments. The Walloon &Marshall Plan8 that Walloon authorities started a year ago aims to attract new high tech industries with growth potential. It has registered some successes, but these sectors tend to engage fewer, more highly skilled and younger employees, rather than soaking up the workers who have lost their positions through regional closures have generated. The Marshall Plan has yet to inspire confidence: in a poll in September only 20 percent of Walloon CEO surveyed had confidence the Plan would succeed.

¶5. (U) In terms of attracting foreign investors, Wallonia is challenged linguistically: while 75% of Flemish students claim to speak English, only 30% of Walloon students claim to do so. This is a serious drawback, given the ubiquity of English as a global commercial language. In addition, there is a gap in critical math and science skills. The OECD,s 2003 PISA study showed Flemish students, scores exceeded those of top-rated Finland, but their Walloon counterparts, scores were scarcely average.

¶6. (U) Finally, Wallonia struggles not only with its regional problems, but labors under the federal context of very high worker social program contributions governed by national law. The standing tax rates and entitlements impose a cost on the employer equal to over two-thirds of the worker,s base salary. Restrictive labor laws making weekend and off-hours either very expensive or prohibited altogether are another burden for investors. Given the attractions of flat-tax havens elsewhere in the EU and low wage rates in Eastern Europe, Belgium,s competitiveness on labor issues is relatively poor. The generous national unemployment structure also gives little incentive to the jobless to seek positions, as entry-level jobs may pay little more than unemployment benefits. To be fair, the government has recently announced incentive programs to reduce some of these costs.

¶7. (U) The Brussels capital region suffers even greater unemployment than Wallonia, 21.2 percent, which is actually a drop of 0.6 percent from a year earlier. The reasons it remains high in Brussels are partly demographic: a concentrated immigrant population, often from North Africa or Turkey, lacking language and other skills, may not match the demand posed by employers. Although Brussels is in the



middle of a construction boom, building companies have been engaging workers from other EU countries to fill their needs; 6,800 Poles were registered in Belgium during the past five months under the new EU labor migration rules, most of them to work in the construction sector.

¶8. (U) Belgium overall, and Brussels in particular, stands to lose jobs in the automobile industry, as that sector faces cuts and relocations due to global competition. In early November Volkswagen announced its plant in suburban Brussels may shed 1,000 positions in the next year, and Opel, Ford, and Volvo factories in Flanders may be trimming their labor needs given global restructuring.

¶9. (U) Regional differences in trade union militancy are another factor limiting competitiveness in the French-speaking areas. Wallonia,s ruling political party, the francophone Socialist (PS) is unlikely to press workers to accommodate employers, federation demands. Despite the tradition of tripartite talks ) union, employers, federation, and the government mediating ) Walloon business leaders reveal low confidence in the government role; 59 percent of them called the PS an obstacle to economic revival in the region.

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